APES 110 – Prohibited Non-assurance Services, Interests and Relationships for Auditors of Public Interest Entities – November 2019

APESB
Accounting Professional & Ethical Standards Board

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) requires audit firms to be independent when undertaking audits, reviews and other assurance engagements. In addition, there are specific prohibitions when the entity is a Public Interest Entity[1] (PIE).

APES 110 sets out a conceptual framework for auditors to assess whether non-assurance services, interests or relationships create threats to the auditor's independence. The application of the conceptual framework involves a rigorous analysis of the service, interest or relationship to identify, evaluate and address threats to independence and involves a reasonable and informed third party test. If the service, relationship or interest creates a threat that cannot be eliminated and if safeguards are not available to reduce the threat to an acceptable level, the firm is required to decline or end the service or audit engagement.

The independence assessment must also consider the aggregate impact of multiple threats to independence, including where the fees in respect of multiple audit clients referred represent a large proportion of total fees for the firm.

Audit engagement teams in Australia specifically exclude individuals within the client's internal audit function, as direct assistance by the internal audit function of the entity to the external auditor is prohibited in Australia.

APES 110 also recognises that some situations create threats that cannot be reduced to an acceptable level and are, therefore, specifically prohibited. These **prohibitions** relate to certain non-assurance services, interests, and relationships for auditors of PIEs and are either outright prohibitions or prohibitions based on the materiality to the financial statements of the PIE being audited. In assessing materiality, auditors must consider both qualitative and quantitative aspects. These prohibitions have legal enforceability in respect of audits and reviews performed under the Corporations Act due to Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

The following tables provide a high-level summary of APES 110 prohibitions. Please note that this summary does not amend or override the Code, the text of which alone is authoritative. Reading this summary is not a substitute for reading the Code.

Strictly Prohibited Non-Assurance Services	**Prohibited Non-Assurance Services (based on materiality)**
Assuming management responsibility for a client	Valuation services
Accounting and bookkeeping services, including preparing accounting records or financial statements[2]	Calculating current and deferred tax liabilities (or assets)
Serving as General Counsel	Tax planning or other tax advisory services where its effectiveness requires a particular accounting treatment or presentation in the financial statements, and there are reasonable doubts as to its appropriateness
Performing negotiations for a client as part of a recruiting service	Acting as an advocate for a client in the resolution of tax disputes before a public tribunal or court
Recruiting services for a position at the client as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements	Internal audit services, on a significant part of internal controls over financial reporting, financial accounting systems, or amounts/disclosures in the financial statements
Promoting, dealing in or underwriting a client's shares	Designing or implementing IT system services that are a significant part of internal controls over financial reporting or that generate information significant to accounting records or financial statements
Compensating or evaluating a key audit partner based on that partner's success in selling non-assurance services	Advocacy role in resolving a dispute or litigation
Serving as a Company Secretary	Litigation support services involving estimating damages or other amounts that affect the financial statements
Managing the administration of an insolvent client	Corporate finance services where its effectiveness requires a particular accounting treatment or presentation in the financial statements, and there are reasonable doubts as to its appropriateness

[1] Public Interest Entities (PIEs), as defined in APES 110 in the Glossary and paragraphs 400.8 to AUST 400.8.1 A1.
[2] A Firm or Network Firm can provide routine or mechanical services in limited circumstances for divisions or related entities of the audit client if the personnel providing the service are not part of the audit team and the divisions or related entities are immaterial to the financial statements being audited, or the services relate to matters that are immaterial.

Prohibited Interests, Relationships and Actions (including materiality factors where noted)	
Acting where a conflict of interest compromises professional or business judgement	Business relationships involving holding common interests in a closely held entity with a client if the business relationship is significant, any financial interest is material or the financial interest does not create control over the closely-held entity
Contingent fees for an audit engagement or for a non-assurance service to the audit client where the fees are material to the firm (or network firm) or the outcome of the service is dependent on a judgement related to a material amount in the financial statements	Participating in an audit team if an immediate family member is, or was during the engagement period, a director or officer of the client or an employee able to exert significant influence over accounting records or financial statements of the client
Commissions or similar benefits for assurance services	Participating in an audit team if, during the period covered by the audit report, an individual served as a director or officer of the audit client or was an employee able to exert significant influence over the accounting records or financial statements
Direct financial interest or material indirect financial interest in the client	Partners or employees acting as a director or an officer of the client. A firm **must** refuse/withdraw from an audit if a partner or employee served as an officer or a director of the client or as an employee able to exert direct and significant influence over the subject matter of an audit
Direct financial interest or material indirect financial interest in the client's parent entity when the client is material to that entity	Significant connections between a firm and a former partner or audit team member who is now employed by an audit client
Common financial interests in an entity with a client where either of the financial interests is material and the client has significant influence over the entity	Audit engagements for a client within defined periods where Key Audit Partners or senior or managing partners have joined the client as director, officer or an employee able to exert significant influence over accounting records or financial statements
Loans, or guarantees for a loan, to the client that are material	Loan of personnel to the client unless specific requirements are met
Loans, or guarantees for a loan, from a client that is a bank or similar institution that are not made under normal lending procedures, terms and conditions	Long association with the client, including serving as an Engagement Partner, Engagement Quality Control Reviewer or other Key Audit Partner subject to specified cooling-off periods[3]
Deposits or brokerage accounts with a client that is a bank, broker or similar institution that are not under normal commercial terms	Audit partners on a cooling-off period due to long association are prohibited from: • Being on the audit engagement team; • Providing quality control; • Consulting with the client or engagement team on technical or industry-specific issues, transactions or events affecting the audit engagement; • Leading or coordinating the professional services provided to that client; • Overseeing the relationship with the client; or • Undertaking any other role or activity involving frequent interaction with senior management or those charged with governance of the client, or direct influence on the outcome of the audit engagement
Material loans, or guarantees for a loan, from a client that is not a bank or similar institution	Gifts and hospitality from the client that are other than trivial and inconsequential
Close business relationships with a client that are significant or involve a material financial interest	Offering or encouraging others to offer inducements or accepting or encouraging others to accept inducements, that the auditor considers is made with the intent to improperly influence the behaviour of the recipient or another individual

[3] Refer to the APESB Technical Staff publication *Audit Partner rotation requirements in Australia Technical Staff Questions & Answers* for further details of these prohibitions.